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FRANKLIN FLOATING RATE TRUST
Form 486BPOS
November 26, 2003

As filed with the Securities and Exchange Commission on November 26, 2003.

1933 Act File No.333-74188
1940 Act File No.811-08271

U.S.SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 /X/

Pre-Effective Amendment No. / /

Post-Effective Amendment No. /2/

AND

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 /X/

Amendment No. / 20 /

FRANKLIN FLOATING RATE TRUST

(Exact Name of Registrant as Specified in Charter)

ONE FRANKLIN PARKWAY, SAN MATEO, CA 94403-1906

(Address of Principal Executive Office)

Registrant's Telephone Number, Including Area Code (650) 312-2000

MURRAY L. SIMPSON, ONE FRANKLIN PARKWAY, SAN MATEO, CA 94403-1906

(Name and Address of Agent for Service of Process)

With a copy to:

Merrill R. Steiner, Esq.
Stradley, Ronon, Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103-7098

Approximate Date of Proposed Public offering: December 1, 2003

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan check the following box. [x]

It is proposed that this filing will become effective (check appropriate box)

[] when declared effective pursuant to section 8(c) of the Securities Act of 1933, or

as follows (the following boxes are included on the basis that the Registrant

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makes repurchase offers under Rule 23c-3 under the Investment Company Act of 1940 and is making this filing in accordance with Rule 486 under the Securities Act of 1933):

- immediately upon filing pursuant to paragraph (b)
 - on December 1, 2003, pursuant to paragraph (b)
 - 60 days after filing pursuant to paragraph (a)
 - on (date) pursuant to paragraph (a)
 - This post-effective amendment designates a new effective date for a previously filed registration statement.
- This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is _____.

Prospectus

Franklin Floating Rate Trust

DECEMBER 1, 2003

[Insert Franklin Templeton Investments logo]

Franklin Floating Rate Trust is a closed-end investment company. Its goal is to provide as high a level of current income and preservation of capital as is consistent with investment primarily in senior secured Corporate Loans and Corporate Debt Securities with Floating Interest Rates. Franklin Advisers, Inc. (Advisers), the Fund's investment manager, uses its credit analysis to select Corporate Loans and Corporate Debt Securities that are suitable investments for the Fund. The Fund will invest at least 65% of its net assets in such loans or debt securities that are rated B or higher by an NRSRO or, if unrated, determined to be of comparable quality by the manager.

Please read this prospectus before investing, and keep it for future reference. It contains important information about the Fund, that you should know before investing in the Fund, including how the Fund invests and the services available to shareholders.

To learn more about the Fund and its policies, you may request a copy of the Fund's Statement of Additional Information (SAI), dated December 1, 2003, which we may amend from time to time.

We have filed the SAI with the SEC and have incorporated it by reference into this prospectus.

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For a free copy of the SAI or a larger print version of this prospectus, contact your investment representative or call 1-800/DIAL BEN(R). The Table of Contents of the SAI appears on page 62 of this prospectus.

COMMON SHARES OF THE FUND ARE NOT DEPOSITS OR OBLIGATIONS OF, OR GUARANTEED OR ENDORSED BY, ANY BANK, AND COMMON SHARES ARE NOT FEDERALLY INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE FEDERAL RESERVE BOARD, OR ANY OTHER AGENCY OF THE U.S. GOVERNMENT. COMMON SHARES OF THE FUND INVOLVE INVESTMENT RISKS, INCLUDING THE POSSIBLE LOSS OF PRINCIPAL.

The SEC has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The Fund may invest up to 100% of its portfolio in high yield, high risk, lower-rated, debt securities. These entail Default and other risks greater than those associated with higher-rated securities. You should carefully consider these risks before investing in the Fund.

THIS PROSPECTUS IS NOT AN OFFERING OF THE COMMON SHARES HEREIN DESCRIBED IN ANY STATE, JURISDICTION OR COUNTRY IN WHICH THE OFFERING IS NOT AUTHORIZED. NO SALES REPRESENTATIVE, DEALER, OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS. FURTHER INFORMATION MAY BE OBTAINED FROM DISTRIBUTORS.

The Fund began offering its Common Shares and began investment operations on October 10, 1997. The Fund engages in a continuous offering of Common Shares. The Fund is authorized as a statutory trust to issue an unlimited number of Common Shares and has registered 620,000,000 Common Shares. Common Shares are offered at a price equal to the next determined Net Asset Value per share, which, as of November 4, 2003, was \$8.64 per share. There is no front-end sales charge on purchases of Common Shares. An Early Withdrawal Charge of 1% will be imposed on Common Shares that are held less than twelve months and that are accepted by the Fund for repurchase in a Repurchase Offer. Certain waivers of this charge may apply. Please see "Early Withdrawal Charge." The price of Common Shares will fluctuate, depending upon the Fund's Net Asset Value per share.

The proceeds to the Fund of the offering of the 55,272,441 Common Shares previously registered and not issued or distributed are estimated at \$477,553,890 and, subject to expenses of issuance and distribution/1 and any repurchases, will be invested by the Fund over the course of the continuous offering.

1. The expenses of issuance and distribution for such Common Shares are estimated at \$2,541,911 which includes, in addition to other expenses, \$37,176 for government and self-regulatory organization filing fees and \$2,475,812 for accounting and transfer agent fees.

Distributors will pay from its own or its affiliates' assets all sales commissions to selected Securities Dealers for sales of Common Shares. Consequently, sales commissions do not reduce the proceeds of the offering available to the Fund for investment. No market currently exists for Common Shares. It is not currently anticipated that a secondary market will develop for Common Shares. The Fund, the manager and Distributors do not intend to make a secondary market in Common Shares or to list Common Shares on any securities exchange or for quotation on any over-the-counter market. Common Shares are not readily marketable. As a consequence, you should consider Common Shares to be an illiquid investment. This means that you may not be able to freely sell your

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Common Shares.

To provide shareholders a means to sell their Common Shares at Net Asset Value, the Fund will make quarterly Repurchase Offers to repurchase Common Shares from shareholders. Each Repurchase Offer will be for a specified percentage (between 5% and 25%) of the Fund's outstanding Common Shares set by the Fund's Board. Common Shares will be repurchased at the Net Asset Value determined as of the close of business (1:00 p.m., Pacific time) on the day the Repurchase Offer ends or within a maximum of fourteen days after the Repurchase Offer ends as described in "Periodic Offers By the Fund to Repurchase Common Shares From Shareholders." Each Repurchase Offer will last for a period between six weeks and three weeks. The Fund will send to its shareholders a written notification about each Repurchase Offer at the beginning of the Repurchase Offer. A Repurchase Offer is expected to conclude near the end of every three months after the end of December 2003. Please see "Periodic Offers By the Fund to Repurchase Common Shares From Shareholders."

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FRANKLIN
FLOATING RATE
TRUST

December 1, 2003

When reading this prospectus, you will see certain terms beginning with capital letters. This means the term is explained in our Useful Terms and Definitions section at the end of the prospectus.

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One Franklin Parkway
P.O. Box 7777
San Mateo
CA 94403-1906

1-800/DIAL BEN(R)

EXPENSE SUMMARY

This table is designed to help you understand the costs of investing in the Fund. It is based on the Fund's historical expenses for the fiscal year ended July 31, 2003. The Fund's actual expenses may vary.

A. SHAREHOLDER TRANSACTION EXPENSES/1

Sales load (as a percentage of offering price).....	None
Dividend reinvestment and cash purchase plan fees.....	None

Early Withdrawal Charge imposed on repurchase of Common Shares held less than twelve months (as a percentage of tender proceeds exclusive of all reinvestments and capital appreciation in the account).. 1.00%/2

B. ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF NET ASSETS ATTRIBUTABLE TO COMMON SHARES)

Management fees.....	0.80%/3
Other expenses.....	0.60%
Total annual Fund operating expenses	1.40%/3

Management fee reduction.....	-0.05%/3

Net annual Fund operating expenses	1.35%/3
	=====

1. If your transaction is processed through your Securities Dealer, you may be charged a fee by your Securities Dealer for this service.

2. An Early Withdrawal Charge of 1% may apply to purchases of Common Shares if you sell the Common Shares within twelve months. See "Early Withdrawal Charge."

3. The manager had agreed in advance to reduce its fee to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund. This reduction is required by the Fund's Board and an exemptive order by the Securities and Exchange Commission.

C. EXAMPLE

Assume the Fund's annual return is 5%, operating expenses are as described above, and you sell your Common Shares after the number of years shown. These are projected amounts you would pay for each \$1,000 that you invest in Common Shares.

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1 YEAR 3 YEARS 5 YEARS 10 YEARS

Assuming no tender of Common

Shares for repurchase by the Fund \$14 \$43 \$74 \$162

Assuming tender and repurchase of Common Shares by the Fund on last day of period and, for the one-year period, imposition of the Early Withdrawal Charge.....\$24

THIS IS JUST AN EXAMPLE. IT DOES NOT REPRESENT PAST OR FUTURE EXPENSES OR RETURNS. ACTUAL EXPENSES AND RETURNS MAY BE MORE OR LESS THAN THOSE SHOWN. The Fund pays its operating expenses. The effects of these expenses are reflected in its Net Asset Value or dividends and are not directly charged to your account.

FINANCIAL HIGHLIGHTS

This table presents the Fund's financial performance for the past five years. Certain information reflects financial results for a single Fund share. The total returns in the table represent the rate that an investor would have earned or lost on an investment in the Fund assuming reinvestment of dividends and capital gains. This information has been audited by PricewaterhouseCoopers LLP, whose report, along with the Fund's financial statements, are included in the annual report, which is available upon request. The audit report covering the period shown below is incorporated by reference in the SAI and appears in the Fund's Annual Report to Shareholders for the fiscal year ended July 31, 2003.

YEAR ENDED JULY 31,

	2003	2002	2001	2000	1999
PER SHARE DATA (\$)					
Net asset value, beginning of year	8.30	9.24	9.85	9.98	10.04
Net investment income	.330	.568/2	.875	.839	.700
Net realized and unrealized gains (losses)	.179	(.927)/2	(.606)	(.130)	(.060)
Total from investment operations	.509	(.359)	.269	.709	.640
Distributions from net investment income	(.389)	(.581)	(.879)	(.839)	(.700)
Net asset value, end of year	8.42	8.30	9.24	9.85	9.98
Total return (%) / 1	6.36	(3.95)	2.80	7.39	6.62

RATIOS/SUPPLEMENTAL DATA

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Net assets, end of year (\$ x 1,000)	1,160,979	1,779,930	2,832,188	2,541,497	1,106,363
Ratios to average net assets: (%)					
Expenses	1.35	1.32	1.36	1.35	1.39
Expenses excluding waiver and payments by affiliate	1.35	1.32	1.36	1.35	1.41
Net investment income	4.26	6.582	9.07	8.51	6.93
Portfolio turnover rate (%)	55.96	62.21	84.15	66.27	63.29

1. Total return does not reflect the Early Withdrawal Charge and is not annualized.

2. Effective August 1, 2001, the Fund adopted the provisions of the AICPA Audit and Accounting Guide of Investment Companies and began amortizing all premium and discount on fixed-income securities, as required. The effect of this change was as follows:

Net investment income per share \$(.008) Net realized and unrealized gains (losses) per share .008 Ratio of net investment income to average net assets ..07%

Per share data and ratios for prior periods have not been restated to reflect this change in accounting policy.

INFORMATION ABOUT THE FUND

THE FUND The Fund is a closed-end management investment company. It was organized as a Delaware statutory trust (a form of entity formerly known as a business trust) on May 20, 1997, and is registered with the SEC. The Fund's principal business is investing its assets by purchasing and selling securities on an ongoing basis, as described in this prospectus. The Fund does not issue redeemable shares (shares that you may redeem at any time). See "Periodic Offers by the Fund to Repurchase Commons Shares from Shareholders."

CONTINUOUS OFFERING The Fund began offering its Common Shares on October 10, 1997. The Fund engages in a continuous offering of Common Shares, at a price equal to the Net Asset Value per share next determined after a purchase order is received. No front-end sales charge is imposed on Common Shares.

The Fund is designed primarily for long-term investors. It should not be considered a vehicle for short-term trading purposes, given its lack of a secondary market and its Early Withdrawal Charge. See "Early Withdrawal Charge."

The minimum initial purchase of Common Shares is \$1,000 and the minimum subsequent investment is \$50. The Fund reserves the right to waive or modify the minimum investment requirements at any time. Any purchase order may be rejected by Distributors or the Fund. Distributors or the Fund also may suspend the continuous offering of Common Shares at any time.

PERIODIC OFFERS TO REPURCHASE COMMON SHARES FROM SHAREHOLDERS The Fund does not intend to list Common Shares on any securities exchange or arrange for their quotation on any over-the-counter market. Because no secondary market currently exists for Common Shares and is not likely to develop, Common shares are not readily marketable and the Fund has adopted a fundamental policy to offer each quarter to repurchase a portion of the Common Shares outstanding. In response to

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each Repurchase offer, shareholders may choose to tender their Common Shares to the Fund for repurchase. Repurchase Offers occur at a price per share equal to the Net Asset Value per share of the Common Shares determined as of the close of business (1:00 p.m. Pacific time) on the day the Repurchase Offer ends or within a period of fourteen days after the Repurchase Offer ends. Each Repurchase Offer will last for a period between six weeks and three weeks. Shareholders will be notified in writing at the beginning of each Repurchase Offer.

Common Shares that have been held for less than twelve months and that are repurchased by the Fund in a Repurchase Offer will be subject to an Early Withdrawal Charge of 1%. The Early Withdrawal Charge will be imposed against the lesser of the then current Net Asset Value or the original purchase price of the tendered Common Shares. Certain waivers of this charge may apply.

Under certain limited circumstances, the Fund may suspend or postpone a quarterly Repurchase Offer for the repurchase of Common Shares from the Fund's shareholders. (The Fund must meet certain regulatory requirements and must give notice to shareholders in order to suspend or postpone a Repurchase Offer.) In that event, shareholders will likely be unable to sell their Common Shares. The Fund, the manager and Distributors are prohibited from making a market in Common Shares as long as the Fund continues to publicly offer Common Shares.

INVESTMENT MANAGER Franklin Advisers, Inc. manages the Fund's assets and makes all investment decisions. The manager provides similar services to other funds. The manager is a wholly owned subsidiary of Resources, a publicly owned company engaged in the financial services industry through its subsidiaries. Together, the manager and its affiliates manage over \$301 billion in assets. See "Who Manages the Fund?"

DISTRIBUTIONS The Fund declares daily and pays monthly dividends from the Fund's net investment income. Capital gains, if any, will be distributed annually, usually in December. Dividend payments are not guaranteed, are subject to the Board's discretion and may vary with each payment. THE FUND DOES NOT PAY "INTEREST" OR GUARANTEE ANY FIXED RATE OF RETURN ON AN INVESTMENT IN THE FUND. You may elect to have distributions automatically reinvested in additional Common Shares. See "Dividends and Distributions to Shareholders" and "How Taxation Affects the Fund and Its Shareholders."

USE OF PROCEEDS FROM SALES OF COMMON SHARES

The net proceeds from the sale of Common Shares are invested in accordance with the Fund's investment goal and policies as soon as practicable. The Fund's immediate ability to pursue its investment goal will depend on economic and market conditions, including the availability of Corporate Loans and Corporate Debt Securities. If the manager determines that market conditions are not favorable, the manager will initially invest the proceeds in short-term debt obligations or instruments that the Fund may normally purchase. Investments in these short-term investments may reduce the Fund's yield.

INVESTMENT GOAL AND POLICIES

The Fund's investment goal is to provide as high a level of current income and preservation of capital as is consistent with investment primarily in senior secured Corporate Loans and Corporate Debt Securities with Floating Interest Rates. This is a fundamental policy of the Fund. This means that it may not be changed without a vote of a majority of the outstanding shares of the Fund. There can be no assurance that the investment goal of the Fund will be achieved.

WHAT KINDS OF SECURITIES DOES THE FUND PURCHASE?

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The manager uses its credit analysis to select Corporate Loans and Corporate Debt Securities that are suitable for investment by the Fund. Under normal market conditions, the Fund will invest at least 80% of its net assets in Corporate Loans and Corporate Debt Securities made to, or issued by, Borrowers that are U.S. companies, foreign borrowers and U.S. subsidiaries of foreign borrowers and that have Floating Interest Rates. Shareholders will be given 60 day's advance notice of any change to this policy.

Floating Interest Rates are: (i) variable rates which adjust to a base rate, such as LIBOR or the CD Rate on set dates, typically every 30 days but not to exceed one year; (ii) interest rates that vary at a set margin above a generally recognized base lending interest such as the Prime Rate of a designated U.S. bank; or (iii) one of the foregoing interest rates and are convertible to fixed rate instruments. Upon conversion of any such loans or securities to fixed rate instruments, the Fund will as promptly as is reasonable rebalance its investments to meet the 80% level described above.

The Fund intends to invest the net proceeds from the sale of Common Shares in accordance with the Fund's investment goal and policies as soon as practicable, based on market conditions, as described above. During periods when the Fund is experiencing a large inflow of assets, there is a risk that the assets may not be promptly and effectively invested and the Fund may not meet the 80% level. It also may not meet the 80% level during temporary defensive periods when the manager believes that suitable Corporate Loans and Corporate Debt Securities are not available or prevailing market or economic conditions warrant.

ABOUT CORPORATE LOANS AND CORPORATE DEBT SECURITIES

Corporate Loans are loans made to corporations. In return, the corporation pays interest and principal to the Lenders. Corporate Loans also include Participation Interests in Corporate Loans or Assignments of Corporate Loans, as more fully described below. Corporate Debt Securities are investments by securityholders in obligations issued by corporations. In exchange for their investment in the corporation, securityholders receive income from the corporation and the return of their investments in the corporation, as more fully described below. Before the Fund invests in a Corporate Loan or Corporate Debt Security, the manager will analyze the likelihood that the Borrower can and will make the required payments on the Corporate Loan or Corporate Debt Security.

A Corporate Loan in which the Fund may invest typically is structured by a group of Lenders. This means that the Lenders participate in the negotiations with the Borrower and in the drafting of the terms of the Corporate Loan. The group of Lenders often consists of commercial banks, thrift institutions, insurance companies, finance companies or other financial institutions. The Fund will not act as the sole negotiator or sole originator for a Corporate Loan. One or more of the Lenders usually administers the Loan on behalf of all the Lenders. This Lender is referred to as the Agent Bank. For more information about the activities of an Agent Bank, see "Description of Participation Interests and Assignments."

Corporate Debt Securities typically are in the form of notes or bonds. They may be issued in a public or private offering in the securities markets. Corporate Debt Securities will have terms similar to Corporate Loans, but will not be in the form of Participation Interests or Assignments. Unlike Corporate Loans, Corporate Debt Securities often are part of a large issue of securities that are held by a large group of investors.

A significant portion of the Fund's Corporate Loans and Corporate Debt Securities (which may be as much as 100% of the Fund's total assets) may be issued in highly leveraged transactions. Such Corporate Loans and Corporate Debt

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Securities are subject to greater credit risks, including, but not limited to, the Default or bankruptcy of the borrower.

SENIOR LOANS In most instances, the Corporate Loans and Corporate Debt Securities will hold the most senior position in the capitalization structure of the corporation. This means that, in case the corporation becomes insolvent, the Lenders or securityholders will be paid before other creditors of the corporation from the assets of the corporation.

SECURED LOANS The Corporate Loans and Corporate Debt Securities will, in most instances, be secured by collateral, which has been pledged by the corporation to the Lenders or securityholders. This means that the corporation has entered into a written promise to deliver, or has actually delivered, to the Lenders or securityholders property that will legally become the property of the Lenders or securityholders in case the corporation Defaults in paying interest or principal.

The terms of each secured Corporate Loan and Corporate Debt Security require that collateral have a fair market value at least equal to 100% of the amount of such Corporate Loan or Corporate Debt Security. The manager generally will determine the value of the collateral by customary valuation techniques that it considers appropriate. However, the value of the collateral may decline following the Fund's investment. Also, collateral may be difficult to sell and there are other risks which may cause the collateral to be insufficient in the event of a Default. Consequently, the Fund might not receive payments to which it is entitled.

The collateral may consist of various types of assets or interests including intangible assets. It may include working capital assets, such as accounts receivable or inventory, or tangible fixed assets, such as real property, buildings and equipment. It may include intangible assets, such as trademarks, copyrights and patent rights, or security interests in securities of subsidiaries or affiliates. The company's owners may provide additional security.

THREE FORMS OF CORPORATE LOANS The Fund may invest in a Corporate Loan in one of three ways. It may make a direct investment in the Corporate Loan by participating as one of the Lenders. It may purchase a Participation Interest or it may purchase an Assignment. Participation Interests are interests issued by a Lender or other financial institution which represent a fractional interest in a Corporate Loan. The Fund may acquire Participation Interests from a Lender or other holders of Participation Interests. Holders of Participation Interests are referred to as Participants. An Assignment represents a portion of a Corporate Loan previously attributable to a different Lender. Unlike a Participation Interest, the Fund will generally become a Lender for the purposes of the relevant loan agreement by purchasing an Assignment.

It can be advantageous to the Fund to make a direct investment in a Corporate Loan as one of the Lenders. Such an investment is typically made at par. This means that the Fund receives a return at the full interest rate for the Corporate Loan. On the other hand, when the Fund invests in a Participation Interest or an Assignment, it will normally pay a fee or forego a portion of the interest payment. Consequently, the Fund's return on such an investment may be lower than it would have been if the Fund had made a direct investment in the underlying Corporate Loan. However, the Fund may be able to invest in Corporate Loans only through Participation Interests or Assignments at certain times when reduced direct investment opportunities in Corporate Loans may exist.

If the Fund purchases an Assignment from a Lender, the Fund will generally have direct contractual rights against the Borrower in favor of the Lenders. On the other hand, if the Fund purchases a Participation Interest either from a Lender

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or a Participant, the Fund typically will have established a direct contractual relationship with the seller of the Participation Interest, but not with the Borrower. Consequently, the Fund is subject to the credit risk of the Lender or Participant who sold the Participation Interest to the Fund, in addition to the usual credit risk of the Borrower. Therefore, when the Fund invests in Corporate Loans through the purchase of Participation Interests, the manager must consider the creditworthiness of the Agent Bank and any Lenders and Participants interposed between the Fund and a Borrower. These parties are referred to as Intermediate Participants. At the time of investment, the Intermediate Participant's outstanding debt obligations must be investment grade. That is, they must be rated in the four highest rating categories assigned by an NRSRO, such as BBB, A-3 or higher by S&P or Baa, P-3 or higher by Moody's. If unrated, the manager must determine that the Participant's obligations are of comparable quality.

RATINGS The Fund's investments may be either unrated or rated by one or more NRSROs, which are independent rating organizations such as S&P or Moody's. These organizations rate obligations by grading the company issuing the obligations based upon its financial soundness. A list of the ratings categories of S&P and Moody's is presented in the Appendix. Generally, the lower the rating category, the more risky is the investment. If the Fund is going to invest in an obligation that is unrated, the manager will determine its quality. The Corporate Loans and Corporate Debt Securities in which the Fund invests generally are currently not rated by any NRSRO.

The Fund will invest at least 65% of its total assets in Corporate Loans and Corporate Debt Securities that are rated B or higher by an NRSRO or, if unrated, determined to be of comparable quality by the manager. The Fund may invest up to 35% of its total assets in Corporate Loans and Corporate Debt Securities that are rated less than B by an NRSRO or, if unrated, determined to be of comparable quality by the manager. However, the Fund will make such an investment only after the manager determines that the investment is suitable for the Fund based on the manager's independent credit analysis. Generally, this means that the manager has determined that the likelihood that the corporation will meet its obligations is acceptable.

Based on the criteria above, the Fund may invest up to 100% of its portfolio in Corporate Loans or Corporate Debt Securities, which may be high yield, high risk, debt securities which are rated less than investment grade (i.e. less than BBB). These entail Default and other risks greater than those associated with higher-rated securities. Generally, the lower the rating category, the more risky is the investment. Unsecured debt securities rated BBB or lower by S&P or Moody's are considered to be high yield, high risk investments, commonly known as "junk bonds." However, the Corporate Loans and Corporate Debt Securities in which the Fund primarily invests are not junk bonds. They have features that junk bonds generally do not have. Corporate Loans and Corporate Debt Securities are senior obligations of the Borrower and are secured by collateral. They generally are subject to certain restrictive covenants in favor of the Lenders or securityholders that invest in the Corporate Loans or Corporate Debt Securities. For more information about restrictive covenants, see the section in the SAI entitled "How Does the Fund Invest Its Assets? - Restrictive Covenants." You should carefully assess the risks associated with an investment in the Fund in light of the securities in which the Fund invests.

OTHER DEBT OBLIGATIONS Under normal market conditions, the Fund may invest up to 20% of its net assets in certain other types of debt obligations, as described below, or in cash. The Fund may invest in Unsecured Corporate Loans and Unsecured Corporate Debt Securities. This means that the Corporate Loans and Corporate Debt Securities are not backed by collateral. These loans and securities also may not be as senior in priority among creditor's of the Borrower. Thus, if a Borrower Defaults on an Unsecured Corporate Loan or Unsecured Corporate Debt Security, it is unlikely that the Fund would be able to

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recover the full amount of the principal and interest due. The manager will determine that the Borrowers in such transactions are creditworthy, under the same analysis that the manager uses for secured Corporate Loans and Corporate Debt Securities.

The Fund also may invest in secured or unsecured short-term debt obligations. These include U.S. government securities, U.S. government agency securities (some of which may not be backed by the full faith and credit of the United States), bank money market instruments (such as CDs), corporate and commercial obligations (such as commercial paper, bankers' acceptances and medium-term notes) and repurchase agreements. These short-term debt obligations will be rated within the four highest rating categories assigned by an NRSRO, or, if unrated, determined to be of comparable quality by the manager.

None of these short-term debt obligations are required to be backed by collateral. However, short-term debt obligations purchased by the Fund will be (or counterparties associated therewith will be) investment grade. This means that they will be rated Baa, P-3 or higher by Moody's or BBB, A-3 or higher by S&P or, if unrated, determined to be of comparable quality by the manager. The Fund also may invest in fixed rate obligations of U.S. companies, foreign companies or U.S. subsidiaries of foreign companies. The manager will determine that the companies issuing these obligations are creditworthy. When the Fund invests in fixed rate obligations, it also may enter into an interest rate swap in order to limit the exposure of such obligations against fluctuations in interest rates.

Securities rated Baa, BBB, P-3 or A-3 are considered to have adequate capacity for payment of principal and interest, but are more susceptible to adverse economic conditions than higher rated securities and, in the case of securities rated BBB or Baa (or comparable unrated securities), have speculative characteristics. Such securities (other than Corporate Loans and Corporate Debt Securities), secured and unsecured short-term debt obligations described above, and cash, cash equivalents or other high quality short-term investments will not exceed 20% of the Fund's assets except (i) during interim periods when investment of the net proceeds of public sales of the Common Shares is pending, (ii) pending reinvestment of proceeds of the sale of a security held by the Fund, and (iii) during temporary defensive periods when, in the opinion of the manager, suitable Corporate Loans and Corporate Debt Securities are not available or prevailing market or economic conditions warrant, or (iv) to maintain liquidity as required for Repurchase Offers. Investments in Unsecured Corporate Loans and Unsecured Corporate Debt Securities will be made on the same basis as investments in Corporate Loans and Corporate Debt Securities as described herein, except with respect to collateral and seniority requirements. During temporary defensive periods, the manager may also invest the Fund's assets in shares of one or more money market funds managed by the manager or its affiliates, to the extent allowed by exemptions granted under the 1940 Act. In the circumstance of temporary defensive investments, the Fund may be unable to achieve its investment goals.

INTEREST RATE FLUCTUATIONS In general, the Net Asset Value of the shares of an investment company, like the Fund, that invests primarily in fixed-income securities changes as the general level of interest rates fluctuates. Because the Fund will invest primarily in Corporate Loans and Corporate Debt Securities with Floating Interest Rates and, to a lesser extent, short-term fixed-rate instruments, the manager expects the value of Common Shares to fluctuate less as a result of interest rate changes than would a portfolio of medium or long-term fixed-rate obligations.

However, some Floating Interest Rates reset only periodically. This means that there are periods during which the interest rate does not change. During such

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periods, prevailing interest rates and the interest rates on some obligations with Floating Interest Rates held by the Fund (including the variable interest rates on nominal amounts in the Fund's interest rate swap transactions) will not move precisely in the same direction or amount, i.e., there will be an imperfect correlation between these rates. These imperfect correlations may cause the Net Asset Value of Common Shares to fluctuate. Also, a decline in the Net Asset Value could result from a Borrower Defaulting on a Corporate Loan or Corporate Debt Security and from changes in the creditworthiness of a Borrower. In the case of Corporate Loans, a decline in the Net Asset Value also may result from changes in the creditworthiness of Intermediate Participants interposed between the Fund and the Borrowers.

DESCRIPTION OF FLOATING INTEREST RATES The rate of interest payable on Corporate Loans or Corporate Debt Securities with Floating Interest Rates is established as the sum of a base lending rate plus a specified margin. These base lending rates generally are LIBOR, the Prime Rate of a designated U.S. bank, the CD Rate, or another base lending rate used by lenders loaning money to companies, so-called commercial lenders. The interest rate on Prime Rate-based Corporate Loans and Corporate Debt Securities floats daily as the Prime Rate changes, while the interest rate on LIBOR-based and CD-based Corporate Loans and Corporate Debt Securities is reset periodically, typically at regular intervals ranging between 30 days and one year.

Certain of the Floating Interest Rate Corporate Loans and Corporate Debt Securities in which the Fund will invest may permit the Borrower to select an interest rate reset period of up to one year. A portion of the Fund's investments may consist of Corporate Loans with interest rates that are fixed for the term of the loan. Investment in Corporate Loans and Corporate Debt Securities with longer interest rate reset periods or fixed interest rates may increase fluctuations in the Fund's Net Asset Value as a result of changes in interest rates. The Fund may attempt to limit the exposure of its fixed rate Corporate Loans and Corporate Debt Securities against fluctuations in interest rates by entering into interest rate swaps or other derivative transactions. Fixed rate corporate loans and corporate debt securities that are converted from fixed rate investments to floating rate investments through interest rate swaps or other derivative transactions will be considered to be "floating interest rate corporate loans and corporate debt securities" for purposes of the Fund's policy of normally investing at least 80% of its net assets in floating interest rate corporate loans and corporate debt securities made to or issued by, borrowers that are U.S. companies, foreign entities and U.S. subsidiaries of foreign entities. The Fund also will attempt to maintain a portfolio of Corporate Loans and Corporate Debt Securities that will have a dollar weighted average period to the next interest rate adjustment of no more than 90 days.

Borrowers have increasingly selected the LIBOR-based pricing option, resulting in a yield on Corporate Loans and Corporate Debt Securities that is consistently lower than the yield available from the Prime Rate-based pricing option. This trend will significantly limit the ability of the Fund to achieve a net return to shareholders that consistently approximates the average published Prime Rate of leading U.S. banks. For more information about this trend, see the section in the SAI entitled "How Does the Fund Invest Its Assets? - Description of Floating or Variable Interest Rates."

THE FUND'S NON-DIVERSIFIED CLASSIFICATION The Fund is non-diversified under the 1940 Act. This means that there is no limit on the amount of assets that the Fund may invest in the securities of any one issuer. However, under the Code, the Fund will limit its investments so that, at the close of each quarter of its taxable year: (i) not more than 25% of its total assets will be invested in the securities (including Corporate Loans but excluding U.S. government securities

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or the securities of other regulated investment companies) of a single issuer, and (ii) with respect to 50% of its total assets, not more than 5% of the Fund's assets will be invested in the securities of any one issuer and securities held by the Fund will not consist of more than 10% of any single issuer's outstanding voting securities.

For purposes of the diversification requirements, the Fund regards the issuer of a Corporate Loan in which the Fund may invest to include both the Borrower involved in a Corporate Loan and the Agent Bank that administers the Corporate Loan. In addition, it also includes any Intermediate Participants interpositioned between the Lender and the Fund with respect to a Participation Interest.

Since the Fund may invest a large portion of its assets in the obligations of a limited number of issuers, the value of Common Shares may fluctuate more widely, and the Fund may present greater risk, than other investments. Also, the Fund may be more susceptible than a more widely diversified fund to any single economic, political or regulatory event. However, the Fund does not currently intend to invest more than 10% of its assets in the obligations of any single Borrower.

HIGHLY LEVERAGED TRANSACTIONS The Corporate Loans and Corporate Debt Securities in which the Fund invests primarily consist of capital restructurings. This means that a Borrower has undertaken the obligations in order to finance the growth of the Borrower's business through product development or marketing, or to finance changes in the way the Borrower utilizes its assets and invested or borrowed financial resources. Corporate Loans and Corporate Debt Securities also may include senior obligations of a Borrower issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code, provided that such senior obligations are determined by the manager upon its credit analysis to be a suitable investment by the Fund.

A significant portion of such Corporate Loans and Corporate Debt Securities (which may be as much as 100% of the Fund's total assets) may be issued in highly leveraged transactions. This means that the Borrower is assuming large amounts of debt in order to have large amounts of financial resources to attempt to achieve its business objectives. Such business objectives may include: management's taking over control of a company (leveraged buyout); reorganizing the assets and liabilities of a company (leveraged recapitalization); or acquiring another company. Such Corporate Loans and Corporate Debt Securities present special risks. See "What Are the Risks of Investing in the Fund? - Credit Risk" and " - Collateral Impairment."

Such Corporate Loans may be structured to include both term loans, which are generally fully funded at the time of the Fund's investment, and revolving credit facilities, which would require the Fund to make additional investments in the Corporate Loans as required under the terms of the credit facility at the Borrower's demand. Such Corporate Loans also may include receivables purchase facilities, which are similar to revolving credit facilities secured by a Borrower's receivables.

The Fund or its custodian will segregate on the books of the Fund an amount of equivalent value to meet such future obligations. This amount will be in the form of cash or other liquid assets. Because the Fund will maintain a sufficient amount by segregating such assets on the books for such contingent obligations, the manager believes that such obligations do not constitute senior securities under the 1940 Act as interpreted by the SEC. The Fund will not invest in Corporate Loans that would require the Fund to make future advances that exceed in the aggregate for all such Corporate Loans 20% of the Fund's total assets. The Fund also will not invest in Corporate Loans that would cause the Fund to

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fail to meet the diversification requirements previously described.

FOREIGN BORROWERS The Fund may invest in Corporate Loans and Corporate Debt Securities which are made to, or issued by, Borrowers that are foreign Borrowers and U.S. subsidiaries of foreign Borrowers. For purposes of this prospectus, Corporate Loans and Corporate Debt Securities of such Borrowers include such loans or debt securities that have one or more of the following characteristics: (1) the principal trading market of the loan or security is in a foreign country; (2) at least 50% of the revenue of the Borrower is generated from goods produced or sold, investments made, or services performed in a foreign country; (3) the Borrower is organized under the laws of a foreign country; or (4) at least 50% of the assets of the Borrower are situated in a foreign country. The Fund normally invests primarily in U.S. Borrowers, but may invest up to 65% of its assets in foreign Borrowers in developed foreign countries. The Fund may from time to time invest in foreign Borrowers in emerging market countries, but currently does not intend to invest more than 35% of its assets in foreign Borrowers in emerging market countries. The Fund considers a country to be an emerging market country if it is defined as a country with an emerging or developing economy by any one of the following: the International Bank for Reconstruction and Development (commonly known as the World Bank), the International Finance Corporation, or the United Nations or its agencies or authorities.

The manager will evaluate the creditworthiness of and the Fund will invest in Corporate Loans and Corporate Debt Securities of foreign Borrowers and U.S. subsidiaries of foreign Borrowers, by using the same analysis as it uses for U.S. Borrowers, and provided that the loans and securities are U.S. dollar-denominated, or the Fund uses a foreign currency swap for payments in U.S. dollars. U.S. dollar-denominated loans and securities are loans and securities for which the Fund pays in U.S. dollars and the Borrower pays principal, interest, dividends or distributions in U.S. dollars. The Fund may invest in a Corporate Loan or Corporate Debt Security that is not denominated in U.S. dollars if the Fund arranges for payments in U.S. dollars by entering into a foreign currency swap. For more information about foreign currency swaps, see the section in the SAI entitled "Foreign Currency Swaps."

Loans to, and securities issued by, foreign Borrowers and U.S. subsidiaries of foreign Borrowers may involve risks not typically involved in domestic investments and loans to, and securities issued by, foreign Borrowers and U.S. subsidiaries of foreign Borrowers in emerging market countries involve additional risks. See "What Are the Risks of Investing in the Fund? - Foreign Investments."

THE MANAGER'S CREDIT ANALYSIS The manager generally will determine the value of the collateral backing a Corporate Loan or Corporate Debt Security by customary valuation techniques that it considers appropriate. Such valuation techniques may include reference to financial statements of the Borrower, independent appraisal, or obtaining the market value of such collateral (e.g., cash or securities) if it is readily ascertainable. The value assigned to the collateral by the manager may be higher than the value at which the Borrower values the collateral on the Borrower's books. The Agent Bank may rely on independent appraisals as to the value of specific collateral. The Agent Bank, however, may not obtain an independent appraisal in all cases. However, there are risks that the collateral may not be sufficient in the event that a Borrower or issuer Defaults in paying interest or principal. See "What Are the Risks of Investing in the Fund? - Collateral Impairment."

The collateral may consist of various types of assets or interests. It may include working capital assets, such as accounts receivable or inventory. Inventory is the goods a company has in stock, including finished goods, goods

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in the process of being manufactured and the supplies used in the process of manufacturing. Accounts receivable are the monies due to a company for merchandise or securities that it has sold, or for the services it has provided. It also may include tangible fixed assets, such as real property, buildings and equipment or intangible assets, such as trademarks, copyrights and patent rights, or securities of subsidiaries or affiliates. Where the Borrower is a privately held company, the company's owners may provide additional security. They may do this by giving personal guarantees of performance or by agreeing to transfer other securities that they own to the Lenders in the event that the obligations are not repaid. In addition, the Fund may invest in Corporate Loans which are fully collateralized by assets of such shareholders or owners, rather than by assets of the Borrower.

The Fund will generally invest in a Corporate Loan or Corporate Debt Security only if the manager judges that the Borrower can meet the scheduled payments on the obligation. See "What Are the Risks of Investing in the Fund? - Credit Risk" for circumstances where the Fund may acquire loans in default. In addition, the manager will consider other factors it believes are appropriate to the analysis of the Borrower and the Corporate Loan or Corporate Debt Security. Such factors may include financial ratios of the Borrower, such as the Interest Coverage Ratio and Leverage Ratio. The manager also will consider the nature of the industry in which the Borrower is engaged, the nature of the Borrower's assets and the general quality of the Borrower. The manager considers developing political, diplomatic, regulatory and operational impacts on the nature of the industry and economy in which the Borrower is engaged, especially in light of the rapid world developments after the terrorism actions in September 2001. Particularly, with respect to foreign Borrowers and U.S. subsidiaries of foreign Borrowers, the manager considers the nature of the foreign countries, economies and markets in which the foreign Borrower is located and operates, which includes the impact on the creditworthiness of the Borrower of political, diplomatic, legal, regulatory and operational aspects of, and developments in, such foreign countries, including the risks or impact of war, regional conflicts or terrorism. These factors are extremely difficult, if not impossible, to predict and, consequently, the manager may be unable to assess effectively any adverse impact on the creditworthiness of Borrowers arising from such factors. See "What Are the Risks of Investing in the Fund? - Foreign Investments" for a description of such factors. The Board will review and approve factors used by the manager. The Corporate Loans and Corporate Debt Securities in which the Fund invests generally are not rated by an NRSRO.

When the manager selects Corporate Loans and Corporate Debt Securities for investment by the Fund, it primarily considers the creditworthiness of the Borrower. The manager will not base its selection upon the quality ratings of other debt obligations of a Borrower. These other debt obligations are often subordinated to the Corporate Loans or Corporate Debt Securities. Instead, the manager will perform its own independent credit analysis of the Borrower, and of the collateral structure for the Corporate Loan or Corporate Debt Security. In making its analysis, the manager will utilize any offering materials and, in the case of Corporate Loans, information prepared and supplied by the Agent Bank, Lender or Participant from whom the Fund purchases its Participation Interest. After the Fund invests in a Corporate Loan and Corporate Debt Security, the manager will continue to evaluate the Corporate Loan or Corporate Debt Security on an ongoing basis.

MATURITIES The Fund has no restrictions on portfolio maturity. The Fund anticipates that a majority of the Corporate Loans and Corporate Debt Securities in which it will invest will have stated maturities ranging from three to ten years. This means that the Borrower is required to fully repay the obligation within that time period. The Fund also anticipates that the Corporate Loans and Corporate Debt Securities will have an average expected life of three to five years.

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The expected average life of the Corporate Loans and Corporate Debt Securities is less than their stated maturity because it is anticipated that some Borrowers will pay off their obligations early. Corporate Loans usually will require the Borrower to prepay the Corporate Loan if the Borrower has excess cash flow. Also, Corporate Loans usually permit the Borrower to prepay at its election. The degree to which Borrowers prepay Corporate Loans and Corporate Debt Securities, whether as a contractual requirement or at their election, cannot be predicted with accuracy. General business conditions, the financial condition of the Borrower and competitive conditions among Lenders are all factors that affect prepayments.

FEEES The Fund may receive and/or pay certain fees in connection with its lending activities. These fees are in addition to interest payments received and may include facility fees, commitment fees, commissions and prepayment penalty fees. When the Fund buys a Corporate Loan or Corporate Debt Security, it may receive a facility fee and when it sells a Corporate Loan or Corporate Debt Security the Fund may pay a facility fee. In certain circumstances, the Fund may receive a prepayment penalty fee on the prepayment of a Corporate Loan or Corporate Debt Security by a Borrower.

DESCRIPTION OF PARTICIPATION INTERESTS AND ASSIGNMENTS The Fund may invest in a Corporate Loan in one of three ways: (1) a direct investment in the Corporate Loan by the Fund serving as one of the Lenders; (2) Participation Interests; or (3) an Assignment. Participation Interests are interests issued by a Lender or other financial institution which represent a fractional interest in a Corporate Loan. The Fund may acquire Participation Interests from a Lender or other holders of Participation Interests. Holders of Participation Interests are referred to as Participants. (For a general description of Lenders and Agent Banks, see "About Corporate Loans and Corporate Debt Securities.") An Assignment represents a portion of a Corporate Loan. Unlike a Participation Interest, the Fund will generally become a "Lender" for the purposes of the terms of the Corporate Loan by purchasing an Assignment. It can be most advantageous to the Fund to make a direct investment in a Corporate Loan as one of the Lenders. Such an investment is typically made at par. This means that the Fund receives a return at the full interest rate for the Corporate Loan.

On the other hand, when the Fund invests in a Participation Interest or an Assignment, it will normally pay a fee or forego a portion of the interest payment. Consequently, the Fund's return on the investment may not be as great as it would have been if the Fund had made a direct investment in the underlying Corporate Loan.

Opportunities for direct investments in Corporate Loans and to a lesser degree, of investments in Participation Interests or Assignments may, from time to time, be limited. The Fund may not be able to invest in Corporate Loans other than through Participation Interests or Assignments. Due to these possible limitations on supply, there is a risk that the Fund may not be able to invest 80% or more of its net assets as described above.

The Lenders or the Agent Bank may have an incentive to market the less desirable Corporate Loans, Participation Interests or Assignments to investors such as the Fund while retaining the more desirable investments for their own inventory. This reduces the availability of the more desirable investments. See "What Are the Risks of Investing in the Fund? - Limitations on Availability of Corporate Loans, Participation Interests, Assignments and Corporate Debt Securities."

The terms of the Participation Interests are privately negotiated between the Fund and the seller. Typically, the Fund will not have established any direct contractual relationship with the Borrower. The Fund will be required to rely on the Lender or the Participant that sold the Participation Interest for the enforcement of the Fund's rights against the Borrower. It also will have to rely

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on that party for the receipt and processing of payments due to the Fund under the Corporate Loans. Consequently, the Fund is subject to the credit risk of both the Lender or Participant, in addition to the usual credit risk of the Borrower. Lenders and Participants interposed between the Fund and a Borrower, together with Agent Banks, are referred to as Intermediate Participants.

If the Fund purchases an Assignment from a Lender, the Fund will step into the shoes of the original Lender and will have direct contractual rights against the Borrower. An Assignment from a Lender gives the Fund the right to receive payments directly from the Borrower and to enforce its rights as a Lender directly against the Borrower.

In the event the Borrower fails to pay principal and interest when due, the Fund may have to assert rights against the Borrower through an Intermediate Participant. This may subject the Fund to delays, expenses and risks that are greater than those that would be involved if the Fund could enforce its rights directly against the Borrower. Moreover, under the terms of a Participation Interest, the Fund may be regarded as a creditor of the Intermediate Participant rather than of the Borrower. This means that the Fund does not have any direct contractual rights against the Borrower. Also, in the event of the insolvency of the Lender or Participant who sold the Participation Interest to the Fund, the Fund may not have any exclusive or senior claim with respect to the Lender's interest in the Corporate Loan, or in the collateral securing the Corporate Loan. Consequently, the Fund may not benefit directly from the collateral supporting the underlying Corporate Loan. There is a risk that the Intermediate Participant may become insolvent. Similar risks may arise with respect to the Agent Bank, as described below.

The Agent Bank is a Lender that administers the Corporate Loan. The Agent Bank typically is responsible for collecting principal, interest and fee payments from the Borrower. The Agent Bank then distributes these payments to all Lenders that are parties to the Corporate Loan. The Fund will not act as an Agent Bank. It generally will rely on the Agent Bank or an Intermediate Participant to collect its portion of the payments. The Fund will also rely on the Agent Bank to take appropriate actions against a Borrower that is not making payments as scheduled. Typically, the Agent Bank is given broad discretion in enforcing the terms of the Corporate Loan, and is required to use only the same care it would use in the management of its own property. The Borrower compensates the Agent Bank for these services. Such compensation may include special fees paid at the start of Corporate Loans and other fees paid on a continuing basis.

In the event that a Borrower becomes bankrupt or insolvent, the Borrower may attempt to assert certain legal defenses as a result of improper conduct by the Agent Bank or Intermediate Participant. The Fund will invest in Corporate Loans only if, at the time of investment, all outstanding debt obligations of the Agent Bank and Intermediate Participants are investment grade, i.e., rated BBB or A-3 or higher by S&P or Baa or P-3 or higher by Moody's or determined to be of comparable quality in the manager's judgment.

There is a risk that an Agent Bank may have financial difficulty. An Agent Bank could even declare bankruptcy, or have a receiver, conservator, or similar official appointed for it by a regulatory authority. If this happens, assets held by the Agent Bank under the Corporate Loan should remain available to holders of Corporate Loans, including the Fund. However, a regulatory authority or court may determine that assets held by the Agent Bank for the benefit of the Fund are subject to the claims of the Agent Bank's general or secured creditors. The Fund might incur costs and delays in realizing payment on a Corporate Loan or might suffer a loss of principal or interest. Similar risks arise in situations involving Intermediate Participants, as described above.

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Intermediate Participants may have an obligation to make future advances to the Borrower at the demand of the Borrower in connection with what are known as revolving credit facilities and may have certain other obligations pursuant to the terms of Corporate Loans. The Fund or its custodian will segregate on the books of the Fund an amount of equivalent value to meet such future obligations. This amount will be in the form of cash or other liquid assets. Because the Fund will maintain a sufficient amount by segregating such assets on the books for such contingent obligations, the manager believes that such obligations do not constitute senior securities under the 1940 Act as interpreted by the SEC. The Fund will not invest in Corporate Loans that would require the Fund to make future advances that exceed in the aggregate for all such Corporate Loans 20% of the Fund's total assets. The Fund also will not invest in Corporate Loans that would cause the Fund to fail to meet the diversification requirements previously described.

OTHER INVESTMENT POLICIES

The Fund has adopted certain other policies set forth below:

NON-CONCENTRATION IN A SINGLE INDUSTRY The SEC takes the position that a fund investing more than 25% of its total assets in a single industry or group of industries is "concentrating" its investments in that industry or group of industries. With the following exception, the Fund currently does not intend to invest more than 20% of its assets in the obligations of Borrowers in any single industry. The Fund will invest more than 25% (and may invest up to 100%) of its total assets in the securities of issuers in the commercial banking, thrift banking, insurance and finance industries, with the understanding that, for this investment percentage, Agent Banks, as well as Borrowers and any Intermediate Participants, are considered to be issuers of Corporate Loans, and Agent Banks and Intermediate Participants typically are included in these industries. Agent Banks are not issuers for purposes of this investment percentage in the usual sense, as the Fund normally does not invest directly in securities, including Corporate Loans or Corporate Debt Securities, issued by Agent Banks. The Fund only considers Agent Banks to be "issuers" for purposes of this investment percentage because the role of the Agent Banks in administering Corporate Loans issued by other companies exposes the Fund to certain risks (as described above). As a result of this concentration of its investments in issuers in these industries, the Fund is subject to certain risks associated with such institutions, both individually and as a group. See "What Are the Risks of Investing in the Fund? - Financial Institutions." The availability of Corporate Loans, Participation Interests, Assignments and Corporate Debt Securities may from time to time reduce the Fund's ability to readily comply with this investment policy.

BORROWING AND LEVERAGE The Fund is authorized to borrow money and has arranged a credit facility with a bank, which permits it to borrow funds to make repurchases of shares in Repurchase Offers for Common Shares or to meet unfunded commitments in connection with investments. However, the Fund will only borrow money under this facility for temporary, extraordinary or emergency purposes. The Fund's borrowings create an opportunity for greater total return to the Fund and, ultimately, the Fund's shareholders, but, at the same time, increase exposure to losses. In addition, interest payments and fees paid by the Fund on any borrowings may offset or exceed the return earned on the borrowed funds. Under the 1940 Act, the Fund is required with respect to all borrowings to maintain minimum asset coverage of at least 300% immediately following any such borrowing and on an ongoing basis as a condition of declaring dividends and repurchasing shares. The Fund also may issue one or more series of preferred shares, but it does not currently intend to do so. See "What Are the Risks of Investing in the Fund? - Effects of Borrowing and Leverage."

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WHEN-ISSUED AND DELAYED DELIVERY TRANSACTIONS The Fund may purchase and sell interests in Corporate Loans and Corporate Debt Securities and other debt securities on a when-issued and delayed delivery basis. There is no limit on the amount of assets which the Fund may invest in when-issued securities. A when-issued obligation refers to an obligation whose price is fixed at the time the commitment to purchase is made, but has not been issued. Delayed delivery refers to the delivery of securities later than the customary time for delivery of securities. The Fund will generally make commitments to purchase interests or securities on a when-issued basis with the intention of acquiring the interests or securities. For more information about when-issued and delayed delivery transactions see the section in the SAI entitled "How Does the Fund Invest Its Assets? - When-Issued and Delayed Delivery Transactions."

INTEREST RATE AND HEDGING TRANSACTIONS The Fund may enter into interest rate swaps in order to limit the exposure of its fixed rate Corporate Loans and Corporate Debt Securities against fluctuations in interest rates. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments or rights to pay or receive interest, such as an exchange of fixed rate payments for Floating Interest Rate payments. For example, if the Fund holds a Corporate Loan or Corporate Debt Security with an interest rate that is reset only once each year, it may swap the right to receive interest at this fixed rate for the right to receive interest at a rate that is reset every week. Thus, if interest rates rise, the increased interest received by the Fund would offset a decline in the value of the Corporate Loan or Corporate Debt Security. On the other hand, if interest rates fall, the Fund's benefit from falling interest rates would be decreased. The obligations to make repayment of principal on the underlying securities are not exchanged. Similarly, the right to receive such repayment of principal is not transferred. In addition, interest rate swaps generally do not involve the delivery of securities, other underlying assets or principal.

Interest rate swap transactions generally require the participation of an intermediary, frequently a bank. For example, the first entity, which holds a fixed-rate obligation, transfers the obligation to the intermediary. The first entity is then obligated to pay to the intermediary a floating rate of interest, generally including a fractional percentage as a commission for the intermediary. The intermediary also makes arrangements with the second entity, which holds a floating-rate obligation that substantially mirrors the obligation desired by the first entity. In return for assuming the fixed-rate obligation, the second entity will pay the intermediary all sums that the intermediary pays on behalf of the first entity, plus an arrangement fee and other agreed upon fees. Interest rate swaps are generally used to permit the party seeking a floating rate obligation the opportunity to acquire such obligation at a rate lower than is directly available in the credit markets, while permitting the party desiring a fixed-rate obligation the opportunity to acquire such a fixed-rate obligation, also frequently at a rate lower than is directly available in the credit markets. The success of such a transaction depends in large part on the availability of fixed-rate obligations at interest (or coupon) rates low enough to cover the costs involved. An interest rate swap transaction is affected by changes in interest rates, which, in turn, may affect the prepayment rate of any underlying debt obligations upon which the interest rate swap is based.

To the extent that the Fund enters into these transactions for hedging purposes, the manager believes that such obligations do not constitute senior securities under the 1940 Act. Accordingly, the Fund will not include hedging transactions in its limitation on borrowing.

Except as noted above, there is no limit on the amount of interest rate hedging transactions that may be entered into by the Fund. The risk of loss with respect

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to interest rate hedges is limited to the net amount of interest payments that the Fund is obligated to make. If the other party to an interest rate swap Defaults, the Fund's risk of loss consists of the net amount of interest payments that the Fund is entitled to receive. The Fund will only enter into an interest rate swap after the manager has evaluated the creditworthiness of the other party to the swap. The risks associated with interest rate swaps are further described in the SAI under the title "How Does the Fund Invest Its Assets? - Interest Rate Swaps."

WHAT ARE THE RISKS OF INVESTING IN THE FUND?

BENEFITS OF INVESTING IN THE FUND Investment in Common Shares of the Fund offers several benefits. The Fund offers investors the opportunity to receive a high level of current income by investing in a professionally managed portfolio comprised primarily of Corporate Loans and Corporate Debt Securities. Corporate Loans are not typically available to individual investors. In managing the Fund, the manager provides the Fund and its shareholders with professional credit analysis. The Fund also relieves the investor of the burdensome administrative details involved in managing a portfolio of such investments. The benefits are at least partially offset by the expenses involved in operating an investment company. Such expenses primarily consist of the management and administrative fees and operational costs.

RISKS FROM FLUCTUATIONS IN GENERAL INTEREST RATES Changes in interest rates in the national and international markets generally affect the market value of fixed-income securities and debt obligations. In turn, the Net Asset Value of the shares of an investment company which invests primarily in fixed-income securities fluctuates. When interest rates rise, the value of a fixed-income portfolio can be expected to fall. However, the manager expects the Fund's Net Asset Value to be relatively stable during normal market conditions, because the Fund's investments will consist primarily of: (i) Corporate Loans and Corporate Debt Securities with Floating Interest Rates; (ii) fixed rate Corporate Loans and Corporate Debt Securities hedged by interest rate swap transactions; and (iii) short-term instruments. Because the Fund will invest primarily in these instruments, the manager expects the Net Asset Value of the Fund to fluctuate less as a result of interest rate changes than would a portfolio comprised mostly of medium or long-term fixed-rate obligations.

Since some Floating Interest Rates reset only periodically there are periods during which the interest rate does not change. During such periods, prevailing interest rates and the interest rates on some obligations with Floating Interest Rates held by the Fund (including the interest rates on nominal amounts in the Fund's interest rate swap transactions) will not move precisely in the same direction or amount, in other words, there will be an imperfect correlation between these rates. These imperfect correlations may cause the Fund's Net Asset Value to fluctuate. A sudden and extreme increase in prevailing interest rates may cause a decline in the Fund's Net Asset Value. Conversely, a sudden and extreme decline in interest rates could result in an increase in the Fund's Net Asset Value.

ILLIQUID SECURITIES The Fund does not limit the amount of its investments that are not readily marketable or are subject to restrictions on resale. Corporate Loans and Corporate Debt Securities in which the Fund invests are in the process of becoming more readily marketable and may be subject to significant restrictions on resale. They do not have the liquidity of conventional investment grade debt securities and certain of these loans and debt securities may be considered Illiquid. As the market for Corporate Loans and Corporate Debt Securities continues to mature, the manager expects that liquidity will continue to improve.

In the event that the Fund voluntarily or involuntarily liquidates these assets, it may not get the full value of the assets. The Fund may have difficulty

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disposing of Illiquid portfolio securities. This may make it difficult for the Fund to raise proceeds to repurchase Common Shares in a Repurchase Offer. The Board will consider liquidity when it determines the percentage of the Fund's outstanding Common Shares that the Fund will offer to repurchase in a Repurchase Offer. The Board will also consider the liquidity of the Fund's portfolio securities when it determines whether to suspend or postpone a Repurchase Offer. See "How Are Common Shares Valued?" in the SAI for information regarding valuation of Illiquid Corporate Loans and Corporate Debt Securities.

FINANCIAL INSTITUTIONS As discussed above, the Fund will invest more than 25% of its total assets in the securities of the following issuers as a group: commercial banks, thrift institutions, insurance companies and finance companies. As a result, the Fund is subject to certain risks associated with these institutions, both individually and as a group.

Banking and thrift institutions are subject to extensive governmental regulations. These regulations may limit both the amounts and types of loans and other financial commitments which the institutions may make and the interest rates and fees which the institutions may charge. The profitability of these institutions largely depends upon the availability and cost of capital funds. Their profits have recently fluctuated significantly as a result of volatile interest rate levels. In addition, general economic conditions influence the operations of these institutions. Financial institutions are exposed to credit losses which result when borrowers suffer financial difficulties.

Insurance companies are also affected by economic and financial conditions and are subject to extensive government regulation, including rate regulation. Property and casualty companies may be exposed to material risks, including reserve inadequacy, latent health exposure and inability to collect from their reinsurance carriers.

These industries are currently undergoing rapid change as existing distinctions between different businesses become blurred. Recent business combinations have included insurance, finance and securities brokerage under single ownership.

EFFECTS OF BORROWING AND LEVERAGE The Fund is authorized to borrow money and has arranged a credit facility with a bank, which permits it to borrow funds to meet unfunded commitments in connection with investments or to make repurchases of shares in Repurchase Offers for Common Shares. There is a risk that the costs of borrowing may exceed the income and appreciation, if any, on assets acquired with the borrowed funds. If this occurs, the use of leverage will reduce the investment performance of the Fund compared with what it would have been without leverage. When the Fund borrows money, the lender will have the right to receive scheduled interest and principal payments. The lender's right to such payments will be senior to those of the holders of Common Shares. The terms of any such borrowings may limit certain activities of the Fund, including the payment of dividends to holders of Common Shares.

Furthermore, the lenders may be granted certain voting rights if the Fund Defaults in the payment of interest or repayment of principal. Subject to its ability to liquidate its relatively Illiquid portfolio securities, the Fund intends to repay the borrowings in the event that the borrowings would impair the Fund's status as a regulated investment company under the Code. Interest payments and fees paid by the Fund on any borrowings will reduce the amount of income it has available to pay as dividends to the Fund's shareholders.

The Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements will increase the cost of borrowing over the stated interest rate.

Leverage creates certain risks for holders of Common Shares. Leveraging by the

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Fund creates an opportunity for greater total return but, at the same time, increases exposure to losses. The Net Asset Value of Common Shares may be more volatile than if the Fund were not leveraged. These risks may be reduced through the use of borrowings that have Floating Interest Rates.

CREDIT RISK Corporate Loans and Corporate Debt Securities may constitute substantially all of the Fund's investments. Corporate Loans and Corporate Debt Securities are primarily dependent upon the creditworthiness of the Borrower for payment of interest and principal. The Fund is subject to the risk that the scheduled interest or principal payments on Corporate Loans, Corporate Debt Securities and other debt obligations in its portfolio will not be paid. If the Borrower fails to pay scheduled interest or principal on a Corporate Loan or Corporate Debt Security, the income of the Fund or the value of its investments may be adversely affected. In turn, this may reduce the amount of dividends or the Net Asset Value of the Fund's Common Shares. The Fund's receipt of principal and interest payments on a Corporate Loan or a Corporate Debt Security also depends upon the creditworthiness of any Intermediate Participant. To reduce credit risk, the manager actively manages the Fund as described above.

Corporate Loans and Corporate Debt Securities made in connection with highly leveraged transactions are subject to greater credit risks than other Corporate Loans and Corporate Debt Securities in which the Fund may invest. See "What Kinds of Securities Does the Fund Purchase? - The Manager's Credit Analysis." These credit risks include an increased possibility that the Borrower may Default on the Corporate Loan or Corporate Debt Security, or may go into bankruptcy. The Fund may have more difficulty selling highly leveraged Corporate Loans and Corporate Debt Securities than other Corporate Loans and Corporate Debt Securities because they are less liquid. The value of such Corporate Loans and Corporate Debt Securities is more volatile in response to interest rate fluctuations. The Corporate Loans and Corporate Debt Securities in which the Fund invests generally are not rated by any NRSRO.

The Fund may own Corporate Loans and Corporate Debt Securities of a Borrower who files for protection under Chapter 11 of the U.S. Bankruptcy Code. The Fund also may purchase Corporate Loans and Corporate Debt Securities that are issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code. The Fund may purchase Corporate Loans and Corporate Debt Securities that are in Default as to the payment of interest or principal or both and with respect to which no interest or principal may be paid for a period of time. The Fund will purchase these obligations only if they hold a senior position in the Borrower's capitalization structure and, in the case of obligations that are not then currently paying interest or principal or both, the manager has determined that such obligations will either begin paying interest or principal or both soon enough to, or may be disposed of at a value that will, meet the investment goals and strategies of the Fund. Also, the manager will determine that such obligations are a suitable investment by the Fund. However, many Borrowers will have non-investment grade subordinated debt. During periods of deteriorating economic conditions, a Borrower may have difficulty making its payments under such bonds and other subordinated debt obligations. These difficulties may damage the Borrower's credit rating or its ability to obtain financing for short-term cash flow needs. This may force the Borrower into bankruptcy or other forms of credit restructuring.

The terms of the Corporate Loans and Corporate Debt Securities require that collateral be maintained at a value at least equal to 100% of the amount of such Corporate Loan or Corporate Debt Security. However, the value of the collateral may decline after the Fund invests in the Corporate Loan or Corporate Debt Security. In addition, collateral securing the loan may be found invalid or may be used to pay other outstanding obligations of the Borrower, under applicable law. If this happens, there is a risk that the value of the collateral may not

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be sufficient to cover the amount owed to the Fund.

In the event that a Borrower Defaults, the Fund's access to the collateral may be limited by bankruptcy and other insolvency laws. There is also the risk that the collateral may be difficult to liquidate. In fact, a majority of the collateral may be illiquid. As a result, the Fund might not receive payments to which it is entitled.

COLLATERAL IMPAIRMENT Corporate Loans and Corporate Debt Securities (excluding Unsecured Corporate Loans and Unsecured Corporate Debt Securities) will be secured unless (i) the Fund's security interest in the collateral is invalidated for any reason by a court, or (ii) the collateral is fully released with the consent of the Agent Bank and Lenders or under the terms of a loan agreement as the creditworthiness of the Borrower improves.

There are risks which may cause the collateral to be insufficient in the event that a Borrower Defaults on a Corporate Loan or Corporate Debt Security. In most credit agreements, there is no formal requirement to pledge additional collateral if the value of the collateral declines subsequent to the Fund's investment in the Corporate Loan or Corporate Debt Security.

There is the risk that the collateral may be difficult to liquidate. In fact, a majority of the collateral may be illiquid. Consequently, the Fund might not receive payments to which it is entitled. This may result in a decline in the value of the investment and, in turn, a decline in the Net Asset Value of the Fund's Common Shares.

There may be temporary periods when the principal asset held by a Borrower is the stock of a related company, which may not legally be pledged to secure a Corporate Loan or Corporate Debt Security. On occasions when such stock cannot be pledged, the Corporate Loan or Corporate Debt Security will be temporarily unsecured until the stock can be pledged or is exchanged for or replaced by other assets.

If a Borrower becomes involved in bankruptcy proceedings, the Fund's access to the collateral may be limited by bankruptcy and other laws. This risk is increased when a Corporate Loan or Corporate Debt Security is made in connection with a highly leveraged transaction. In the event that a court decides that the Fund's access to the collateral is limited or void, it is unlikely that the Fund would be able to recover the full amount of the principal and interest due to it. The risks of collateral impairment are further described in the SAI in the section entitled "What Are the Risks of Investing in the Fund? - Collateral Impairment."

PREPAYMENTS Borrowers may pay back principal before the scheduled due date. Borrowers may find it advantageous to prepay principal due to a decline in interest rates or an excess in cash flow. Such prepayments may require the Fund to replace a Corporate Loan, Corporate Debt Security or other investment with a lower yielding security. This may adversely affect the Net Asset Value of Common Shares.

LIMITATIONS ON AVAILABILITY OF CORPORATE LOANS, PARTICIPATION INTERESTS, ASSIGNMENTS AND CORPORATE DEBT SECURITIES. Direct investments in Corporate Loans and, to a lesser degree, investments in Participation Interests or Assignments may from time to time have only limited availability. Consequently, there is a risk that the Fund may not be able to invest 80% or more of its net assets in Corporate Loans, Participation Interests, Assignments and Corporate Debt Securities, as described above. Limitations on the availability of these investments may be due to a number of factors. There may be more willing purchasers of direct Corporate Loans compared to the available loans. Direct Lenders also may allocate only a small number of Corporate Loans to investors, such as the Fund. Also, the Lenders or the Agent Bank may have an incentive to

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market the less desirable Corporate Loans, Participation Interests or Assignments to investors such as the Fund while retaining the more attractive investments for themselves. This reduces the availability of the more desirable investments. There is a risk that the assets of the Fund may not be promptly and effectively invested during periods when the Fund is experiencing a large inflow of assets.

The availability of Corporate Loans, Participation Interests, Assignments and Corporate Debt Securities may from time to time reduce the Fund's ability to readily comply with the Fund's investment policy regarding non-concentration in a single industry. See "Other Investment Policies - Non-Concentration in a Single Industry." This means that to the extent that the Fund is not investing its assets primarily in Corporate Loans, Participation Interests, Assignments and Corporate Debt Securities due to the foregoing risks, the Fund may be unable to achieve its investment goal.

FOREIGN INVESTMENTS As noted above, the Fund may invest in Corporate Loans and Corporate Debt Securities that are made to, or issued by, foreign Borrowers and U.S. subsidiaries of foreign Borrowers, if the Borrower passes the same creditworthiness analysis that the manager uses for U.S. Borrowers and the loans and securities are U.S. dollar-denominated, or the Fund uses a foreign currency swap for payments in U.S. dollars. These obligations may involve risks not typically involved in domestic investments and the risks can be significantly magnified for investments in foreign countries that are emerging market countries.

CURRENCY FLUCTUATIONS. To the extent the Fund uses foreign currency swaps for Corporate Loans or Corporate Debt Securities, transactions in foreign securities may be conducted in local currencies. In these transactions U.S. dollars must often be exchanged for another currency when an obligation is bought or sold or a dividend is paid. Likewise, security price quotations and total return information reflect conversion into U.S. dollars. Fluctuations in foreign exchange rates can significantly increase or decrease the U.S. dollar value of a foreign investment, boosting or offsetting its local market return. Currency risk cannot be eliminated entirely.

INCREASED COSTS. It is more expensive for the Fund to purchase and sell Corporate Loans and Corporate Debt Securities in foreign markets than in the U.S. markets. Investment companies, such as the Fund, offer an efficient way for individuals to invest abroad, but the overall expense ratios of international investment companies are usually higher than the overall expense ratios of investment companies that invest in U.S. obligations.

POLITICAL AND ECONOMIC FACTORS. The economies, markets, and political structures of a number of the countries in which the Fund can invest do not compare favorably with the U.S. and other mature economies in terms of wealth and stability. Therefore, investments in these countries will entail greater risk and may be subject to erratic and abrupt price movements. This was especially true for emerging market countries.

LEGAL, REGULATORY, AND OPERATIONAL. Certain foreign countries may impose restrictions on foreign investors, such as the Fund. These restrictions may take the form of prior governmental approval, limits on the amount and type of obligations held by foreigners, limits on the types of companies in which foreigners may invest, exchange controls and other actions that restrict the purchase or sale of assets or result in a loss of assets. Diplomatic and political developments could affect the economies, industries and securities and currency markets, and the value of the Fund's investments, in foreign countries, including rapid and adverse political changes, social instability, regional conflicts, terrorism and war. These factors are extremely difficult, if not impossible, to predict and take into account with respect to the Fund's

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investments. In certain foreign countries, there is the possibility that the government or a government agency may take over the assets of the Fund for political or economic reasons or impose taxation that is so heavy that it amounts to confiscation of the assets taxed.

Certain foreign countries lack uniform accounting, auditing, and financial reporting standards, have less governmental supervision of financial markets than in the U.S., do not honor legal rights enjoyed in the U.S. In certain foreign countries, the financial institutions with which the Fund deals may have custody and settlement practices, such as delays, which could subject the Fund to risks not customary in the U.S. Information about foreign Borrowers may differ from that available for U.S. Borrowers, since foreign companies are not generally subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. Borrowers. In addition, the markets for Corporate Loans and Corporate Debt Securities in foreign countries have substantially lower trading volumes than U.S. markets, resulting in less liquidity and more volatility than in the United States.

PRICING. Corporate Loans and Corporate Debt Securities may be purchased or sold on days (such as Saturdays) when the Fund does not account for their prices in calculating its Net Asset Value. As a result, the Fund's Net Asset Value may change significantly on days when shareholders cannot purchase Common Shares, or for repurchases of Common Shares, between the date on which a shareholder tenders Common Shares for repurchase by the Fund and the date on which the repurchase price of the Common Shares is determined. See "Periodic Offers by the Fund to Repurchase Common Shares from Shareholders."

RISK OF DECLINE IN NAV DUE TO REPURCHASES The NAV may decline as a result of the Fund's sales of portfolio securities to finance a Repurchase Offer. The Fund may be required to sell portfolio securities to raise cash to finance a Repurchase Offer, which may cause the market prices of the Fund's portfolio securities, and hence the Fund's NAV, to decline. If such a decline occurs, the Fund cannot predict its magnitude or whether such a decline would be temporary or continue until or beyond the Repurchase Pricing Date. Because the price per share to be paid in the Repurchase Offer will depend upon the NAV per share as determined on the actual pricing date, the consideration received by tendering shareholders would be reduced if the decline continued until the actual pricing date. In addition, the sale of portfolio securities will increase the Fund's transaction expenses, and the Fund may receive proceeds from the sale of portfolio securities that are less than their valuations by the Fund. Accordingly, because of the Repurchase Offer, the Fund's NAV per share may decline more than it otherwise might, thereby reducing the amount of proceeds received by tendering shareholders and the NAV per share for non-tendering shareholders.

WARRANTS AND OTHER EQUITY SECURITIES The Fund may acquire warrants and other equity securities in connection with or incidental to the Fund's other investment activities. The Fund may also acquire such securities as a result of a restructuring of Corporate Loans and/or Corporate Debt Securities. Such securities may be considered illiquid. It is expected that warrants and other equity securities will comprise a small percentage (typically less than 5%) of the Fund's assets. Nevertheless, fluctuations in the value of such securities as may be held by the Fund could result in a decline in the Fund's NAV.

PORTFOLIO MANAGEMENT AND OTHER CONSIDERATIONS In the event that short-term interest rates increase or other market conditions change, the Fund's leverage could adversely affect holders of Common Shares, as noted above. If such changes occur or are anticipated, the Fund may attempt to shorten the average maturity of its investment portfolio. This would tend to decrease the negative impact of

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leverage on holders of Common Shares. To do this, the Fund would purchase securities with generally shorter maturities.

ANTI-TAKEOVER PROVISIONS The Declaration of Trust contains terms that limit the ability of other entities to acquire control of the Fund or to change the Board. These provisions may prevent you from selling your Common Shares at a premium because a third party will be discouraged from attempting to obtain control of the Fund. See "Description of Common Shares - Certain Anti-Takeover Provisions of the Declaration of Trust."

WHO MANAGES THE FUND?

THE BOARD. The Board oversees the management of the Fund and elects its officers. The officers are responsible for the Fund's day-to-day operations.

INVESTMENT MANAGER. Franklin Advisers, Inc. (Advisers), One Franklin Parkway, San Mateo, CA 94403-1906 manages the Fund's assets. The manager also performs similar services for other funds. It is a wholly owned subsidiary of Resources, a publicly owned company engaged in the financial services industry through its subsidiaries. Charles B. Johnson and Rupert H. Johnson, Jr. are the principal shareholders of Resources. Together, the manager and its affiliates manage over \$301 billion in assets. Please see "Investment Management and Other Services" and "Miscellaneous Information" in the SAI for information on securities transactions.

PORTFOLIO MANAGERS.

RICHARD C. D'ADDARIO, SENIOR VICE PRESIDENT OF ADVISERS

Mr. D'Addario has been a manager of the Fund since 2000. He joined Franklin Templeton Investments in 1996.

RICHARD S. HSU CFA, Vice President of Advisers

Mr. Hsu has been a manager of the Fund since 2000. He joined Franklin Templeton Investments in 1996.

MANAGEMENT FEES. For the fiscal year ended July 31, 2003, management fees, before any reduction were 0.80% of the average net assets of the Fund. Under an agreement by the manager to reduce its fees to reflect reduced services resulting from the Fund's investment in a Franklin Templeton money fund, the Fund paid 0.75% of its average net assets to the manager for its services. This reduction is required by the Fund's Board and an exemptive order by the Securities and Exchange Commission.

ADMINISTRATIVE SERVICES. FT Services provides certain administrative services and facilities for the Fund. Under its agreement with the Fund, FT Services is entitled to a monthly fee equal to an annual rate of 0.15% of the Fund's average daily net assets up to \$200 million, 0.135% of average daily net assets over \$200 million up to \$700 million, 0.10% of average daily net assets over \$700 million up to \$1.2 billion, and 0.075% of average daily net assets over \$1.2 billion. During the fiscal year ended July 31, 2003, administration fees totaled 0.12%. Please see "Investment Management and Other Services" in the SAI for more information.

SHAREHOLDER SERVICING AND TRANSFER AGENT. Investor Services, a wholly owned subsidiary of Resources, is the Fund's shareholder servicing agent and acts as the Fund's transfer agent and dividend-paying agent. Investor Services is compensated at an annual rate of 0.40% of the Fund's average daily net assets. The Fund also may reimburse Investor Services for certain out-of-pocket

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expenses.

PORTFOLIO TRANSACTIONS BY THE FUND

The manager tries to obtain the best execution on all transactions. If the manager believes more than one broker or dealer can provide the best execution, it may consider research and related services and the sale of Common Shares, as well as shares of other funds in Franklin Templeton Investments, when selecting a broker or dealer.

The Fund engages in trading when the manager has concluded that the sale of a security owned by the Fund and/or the purchase of another security can enhance principal and/or increase income. A security may be sold to avoid any prospective decline in market value, or a security may be purchased in anticipation of a market rise. Consistent with the Fund's investment goal, a security also may be sold and a comparable security purchased coincidentally in order to take advantage of what is believed to be a disparity in the normal yield and price relationship between the two securities.

The Fund's annual portfolio turnover rate is not expected to exceed 100%. The rate may vary greatly from year to year and will not be a limiting factor when the manager deems portfolio changes appropriate. Although the Fund generally does not intend to trade for short-term profits, the securities held by the Fund will be sold whenever the manager believes it is appropriate to do so. Sales will be made without regard to the length of time the security may have been held. Large Common Share repurchases by the Fund during the quarterly or discretionary Repurchase Offers may require the Fund to liquidate portions of its securities holdings for cash to repurchase the Common Shares. The liquidation of such holdings may result in a higher than expected annual portfolio turnover rate. A 100% annual portfolio turnover rate would occur if the lesser of the value of purchases or sales of the Fund's securities for a year (excluding purchases of U.S. Treasury and other securities with a maturity at the date of purchase of one year or less) were equal to 100% of the average monthly value of the securities, excluding short-term investments, held by the Fund during such year. Higher portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs that the Fund will bear directly.

Please see "How Does the Fund Buy Securities for Its Portfolio?" in the SAI for more information.

INVESTMENT PERFORMANCE INFORMATION

From time to time, the Fund advertises its performance. Performance information may include its current yield, current distribution rate or total return for specific time periods.

The current yield of the Fund shows the income generated by an investment in the Fund over a stated period. The current distribution rate shows the dividends or distributions paid to the Fund's shareholders. This rate is usually computed by annualizing the monthly distribution paid per share during a certain period and dividing that amount by the current maximum offering price. Total return is the change in value of an investment over a given period. Total return assumes any dividends and capital gains are reinvested.

Performance figures will reflect the imposition of the Early Withdrawal Charge but additional performance figures that are calculated without reflecting the Early Withdrawal Charge may be presented.

Performance figures are always based on the Fund's past performance and do not guarantee future results. The Fund's yield and distribution rate are expected to fluctuate. Total return will also vary, depending on market conditions, the

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Corporate Loans, Corporate Debt Securities and other securities that the Fund owns, the Fund's operating expenses and the amount of capital gains or losses during the period. For a more detailed description of how the Fund calculates its performance figures, please see "How Does the Fund Measure Performance?" in the SAI.

HOW TO BUY COMMON SHARES

CONTINUOUS OFFERING

The Fund continuously offers Common Shares through Distributors and other Securities Dealers that have entered into dealer agreements with Distributors. The Fund or Distributors may suspend the continuous offering of Common Shares at any time without prior notice. Similarly, the Fund or Distributors may resume the offering at any time. If there is a suspension of the offering of Common Shares, shareholders who reinvest their distributions in additional Common Shares will be permitted to continue to make those reinvestments.

During the continuous offering, the Fund offers Common Shares at the public offering price, which is the Net Asset Value per share next determined after Distributors receives your purchase order and payment. As of November 4, 2003, the Net Asset Value per share for Common Shares was \$8.64. For purchase orders and payments received by Distributors or Securities Dealers prior to the close of business on the NYSE (generally, 1:00 p.m., Pacific time) (including orders received after the close of business on the previous business day), the offering price will be the Net Asset Value determined as of the close of business on the NYSE on that day. For purchases by wire, if the purchase order is received by 1:00 p.m., Pacific time, and the bank receives the wired payment by 3:00 p.m., Pacific time, on the same day, the offering price will be the Net Asset Value determined as of the close of business on the NYSE on that day. If Distributors or a Securities Dealer receives your purchase order and payment after the close of business on the NYSE, the order is considered received on the next business day. Any order may be rejected by Distributors or the Fund.

In the course of a Repurchase Offer, Distributors or an affiliate may inadvertently acquire a small amount (expected to be less than 5%) of Common Shares which it may wish to resell. The Common Shares repurchased in these circumstances will not be subject to any investment restriction, and the Common Shares may be resold in a subsequent Repurchase Offer. This inadvertent acquisition would result from the administrative complexities that arise because a Repurchase Offer is confined to a specific percentage of the outstanding Common Shares, and the Common Shares tendered by shareholders during a particular Repurchase Offer may exceed the percentage limit of that Repurchase Offer. In that situation, the Fund is required to repurchase Common Shares on a pro rata basis, as described below. See "Periodic Offers by the Fund to Repurchase Common Shares from Shareholders."

OPENING YOUR ACCOUNT

To open your account, please follow the steps below. This will help avoid any delays in processing your request.

1. Read this prospectus carefully.
2. Determine how much you would like to invest. The Fund's minimum investments are:

MINIMUM INVESTMENTS

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	INITIAL	ADDITIONAL
Regular accounts	\$1,000	\$50
Automatic investment plans	\$50	\$50
UGMA/UTMA accounts	\$100	\$50

We reserve the right to change the amount of these minimums for certain purchases. We also reserve the right to restrict or refuse any order to buy Common Shares, including any purchases under the exchange privilege.

3. Carefully complete and sign the enclosed account application, including the optional shareholder privileges section. To save time, you can sign up now for services you may want on your account by completing the appropriate sections of the application (see "Services to Help You Manage Your Account" on page 57). For example, if you would like to link one of your bank accounts to your fund account so that you may use electronic funds transfer to and from your bank account to buy and sell shares, please complete the bank information section of the application. We will keep your bank information on file for future purchases and redemptions. We do not accept cash, credit card convenience checks, non-bank money orders or travelers checks as forms of payment to purchase shares.

4. Make your investment using the table below.

METHOD	STEPS TO FOLLOW
BY MAIL	<p>For an initial investment: Return the application to the Fund with your check made payable to the Fund.</p> <p>For additional investments: Send a check made payable to the Fund. Please include your account number on the check.</p>
BY WIRE	<p>1. Call Shareholder Services or, if that number is busy, call 1-650/312-2000 collect, to receive a wire control number and wire instructions. You need a new wire control number every time you wire money into your account. If you do not have a currently effective wire control number, we will return the money to the bank, and we will not credit the purchase to your account.</p> <p>2. For an initial investment you must also return your signed application to the Fund.</p> <p>IMPORTANT DEADLINES: If we receive your call before 1:00 p.m. Pacific time and the bank receives the wired funds and reports the receipt of wired funds to the fund by 3:00 p.m. Pacific time, we will credit the purchase to your account that day. If we receive your call after 1:00 p.m. or the bank receives the wire after 3:00 p.m., we will credit the purchase to your account the following business day.</p>
THROUGH YOUR INVESTMENT REPRESENTATIVE	Contact your investment representative

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within your plan.

Plan documents are required for all retirement plans. Bank and Trust can provide the plan documents for you and serve as custodian or trustee.

Bank and Trust can provide you with brochures containing important information about its plans. These plans require separate applications and their policies and procedures may be different than those described in this prospectus. For a retirement plan brochure or application, call Retirement Services.

PAYMENTS TO SECURITIES DEALERS

The payments described below may be made to Securities Dealers who initiate and are responsible for purchases of Common Shares. The payments are subject to the sole discretion of Distributors, and are paid by Distributors or one of its affiliates and not by the Fund or its shareholders.

1. For purchases of Common Shares - 1.00% of the dollar amount of Common Shares sold by the Securities Dealer. This payment consists of 0.75% of sales commission and 0.25% of service fee (for the first year's services). For purchases of \$2 million or more where the Securities Dealer has waived this payment, the Common Shares purchased will qualify for a waiver of the Early Withdrawal Charge. In these circumstances Distributors will pay Securities Dealers quarterly at an annual rate of up to 0.50% of the dollar amount invested beginning immediately after the Common Shares are purchased.
2. Purchases by trust companies and bank trust departments, and Eligible Governmental Authorities - up to 0.25% of the amount invested.

A Securities Dealer may receive only one of these payments for each qualifying purchase. For Securities Dealers who receive payments described in paragraph 1 above, if Common Shares remain outstanding for at least twelve months from the date of their original purchase, Distributors will, beginning in the thirteenth month, compensate the Securities Dealer quarterly at an annual rate of 0.50% of the value of the Common Shares sold by the Securities Dealer and remaining outstanding.

Broker-dealers or others who have entered into an agreement with Distributors for clients participating in comprehensive fee programs will not receive the payment described in paragraph 1 above for Common Shares sold. Beginning immediately after the Common Shares are purchased, they will, however, be eligible to receive quarterly payments at an annual rate of 0.50% of the value of the Common Shares sold and remaining outstanding.

The total compensation paid to selected Securities Dealers and Distributors, including, but not limited to, the compensation paid at the time of purchase, the quarterly payments mentioned above and the Early Withdrawal Charge will not amount to more than 8.00% of the initial gross proceeds of the offering and will comply with the National Association of Securities Dealers, Inc. Conduct Rule regarding sales charges of open-end investment companies.

FOR INVESTORS OUTSIDE THE U.S.

The distribution of this prospectus and the offering of Fund shares may be limited in many jurisdictions. An investor who wishes to buy Common Shares of the Fund should determine, or have a broker-dealer determine, the applicable laws and regulations of the relevant jurisdiction. Investors are responsible for compliance with tax, currency exchange or other regulations applicable to

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redemption and purchase transactions in any jurisdiction to which they may be subject. Investors should consult appropriate tax and legal advisors to obtain information on the rules applicable to these transactions.

PERIODIC OFFERS BY THE FUND TO REPURCHASE COMMON SHARES FROM SHAREHOLDERS

The Fund is not aware of any currently existing secondary market for Common Shares and does not anticipate that a secondary market will develop for Common Shares. A secondary market is a market, exchange facility or system for quoting bid and asking prices where securities such as the Common Shares can be readily bought and sold among holders of the securities after they are initially distributed. Without a secondary market, Common Shares are not liquid, which means that they are not readily marketable. However, the Fund has taken action to provide liquidity to shareholders. The Fund has adopted share repurchase policies as fundamental policies. This means the policies may not be changed without the vote of the holders of a majority of the Fund's outstanding voting securities. These policies provide that each quarter, the Fund will make a Repurchase Offer to repurchase a portion of the outstanding Common Shares from shareholders who request repurchases. The Fund will suspend or delay a Repurchase Offer only if certain regulatory requirements (described in the notice of the Repurchase Offer) are met. See "Suspension or Postponement of Repurchase Offer." The price of the repurchases of Common Shares normally will be the Net Asset Value per share determined as of the close of business (1:00 p.m. Pacific time) on the date the Repurchase Offer ends or within a maximum of fourteen days after the Repurchase Offer ends as described below.

REPURCHASE PROCEDURES. At the beginning of each Repurchase Offer, the Fund will send to its shareholders a written notification about the Repurchase Offer, how they may request that the Fund repurchase their Common Shares and the deadline for shareholders to provide their repurchase requests to Investor Services (the "Repurchase Request Deadline"), which is the date the Repurchase Offer ends. The time between the notification to the shareholders and the Repurchase Request Deadline may vary from no more than six weeks to no less than three weeks. For each Repurchase Offer the Fund will establish the Repurchase Request Deadline based on factors, such as market conditions, liquidity of the Fund's assets and shareholder servicing considerations. The repurchase price of the Common Shares will be the Net Asset Value as of the close of the NYSE on the date on which the repurchase price of the Common Shares will be determined (the "Repurchase Pricing Date"). It is anticipated that normally the Repurchase Pricing Date will be the same date as the Repurchase Request Deadline, and if so, the Repurchase Request Deadline will be set for a time no later than the close of the NYSE on such date. The Fund has determined that the Repurchase Pricing Date may occur no later than the fourteenth day after the Repurchase Request Deadline or the next business day if the fourteenth day is not a business day. Within such fourteen day period, the Fund may use an earlier Repurchase Pricing Date under certain circumstances.

The Board may establish other policies for repurchases of Common Shares that are consistent with the 1940 Act and other pertinent laws. Common Shares tendered by shareholders by any Repurchase Request Deadline will be repurchased subject to the aggregate repurchase amounts established for that Repurchase Request Deadline. Repurchase proceeds will be paid to shareholders, in cash, within seven days after each Repurchase Pricing Date. The end of the seven days is referred to as the "Repurchase Payment Deadline."

REPURCHASE AMOUNTS. The Board, in its sole discretion, will determine the number of Common Shares that the Fund will offer to repurchase (the "Repurchase Offer Amount") for a given Repurchase Request Deadline. The Repurchase Offer Amount will be at least 5% and no more than 25% of the total number of Common Shares

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outstanding on the Repurchase Request Deadline. A Repurchase Offer is expected to conclude near the end of every calendar quarter each year.

If shareholders tender more than the Repurchase Offer Amount for a given tender Offer, the Fund may repurchase an additional amount of Common Shares of up to 2% of the Common Shares outstanding on the Repurchase Request Deadline. If Fund shareholders tender more Common Shares than the Fund decides to repurchase, whether the Repurchase Offer Amount or the Repurchase Offer Amount plus the 2% additional Common Shares, the Fund will repurchase the Common Shares on a pro rata basis, rounded down to the nearest full share. The Fund may, however, accept all Common Shares tendered by shareholders who own less than one hundred Common Shares and who tender all their Common Shares, before accepting on a pro rata basis Common Shares tendered by other shareholders.

NOTICES TO SHAREHOLDERS. Notice of each quarterly Repurchase Offer (and any additional discretionary repurchase offers) will be sent to each beneficial owner of Common Shares between twenty-one and forty-two days before each Repurchase Request Deadline. The notice will include detailed instructions on how to tender Common Shares. The notice will state the Repurchase Offer Amount. The notice will also identify the dates of the Repurchase Request Deadline, latest Repurchase Pricing Date, and latest Repurchase Payment Deadline. The notice will state that the NAV may fluctuate between the Repurchase Request Deadline and the Repurchase Pricing Date, if such dates do not coincide, and the possibility that the Fund may use an earlier Repurchase Pricing Date than the latest Repurchase Pricing Date under certain circumstances. The notice will describe (i) the procedures for you to tender your Common Shares, (ii) the procedures for the Fund to repurchase Common Shares on a pro rata basis, (iii) the circumstances in which the Fund may suspend or postpone a Repurchase Offer, and (iv) the procedures that will enable you to withdraw or modify your tenders of Common Shares prior to the Repurchase Request Deadline.

REPURCHASE PRICE. The current Net Asset Value of the Common Shares is computed daily and will be computed daily on the five business days before a Repurchase Request Deadline. The Board has determined that the time at which the Net Asset Value will be computed will be as of the close of the NYSE. You may call Fund Information at 1-800/DIAL BEN(R) to learn the Net Asset Value per share. The notice of the repurchase offer will give the Net Asset Value per share as of a recent date, and a toll-free number for information regarding the Repurchase Offer. During the period from notification to shareholders of a Repurchase Offer until the Repurchase Pricing Date, the Fund will maintain liquid assets equal to 100% of the Repurchase Offer Amount.

SUSPENSION OR POSTPONEMENT OF REPURCHASE OFFER. The Fund will not suspend or postpone a Repurchase Offer except if a majority of the Board, including a majority of the Board members who are not "interested persons" of the Fund, as defined in the 1940 Act (Independent Trustees), vote to do so, and only (a) if the Repurchase Offer would cause the Fund to lose its status as a regulated investment company under Subchapter M of the Code; (b) for any period during which the NYSE or any market in which the securities owned by the Fund are principally traded is closed, other than customary weekend and holiday closings, or during which trading in such market is restricted; (c) for any period during which any emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable, or during which it is not reasonably practicable for the Fund fairly to determine its NAV; or (d) for such other periods as the SEC may by order permit for the protection of shareholders of the Fund. The Fund will send to its shareholders notice of any suspension or postponement and notice of any renewed repurchase offer after a suspension or postponement.

SPECIAL CONSIDERATIONS OF REPURCHASES. As required by the 1940 Act, a majority of the Board consists of Independent Trustees. In addition, the Independent Trustees will select and nominate any additional Independent Trustees.

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The Fund has arranged a credit facility with a bank under which it may borrow to finance the repurchase of Common Shares through Repurchase Offers. Any such borrowings will comply with the Fund's investment restrictions on borrowing. See "What Are the Risks of Investing in the Fund? - Effects of Borrowing and Leverage" above, and "Investment Restrictions" in the SAI.

Because there likely will not be a secondary market for Common Shares, quarterly and any additional discretionary Repurchase Offers will provide the only source of liquidity for shareholders. If a secondary market were to develop for Common Shares, however, the market price per share of the Common Shares could, at times, vary from the Net Asset Value per share. A number of factors could cause these differences, including relative demand and supply of Common Shares and the performance of the Fund. Repurchase Offers for Common Shares at Net Asset Value would be expected to reduce any spread or gap that might develop between Net Asset Value and market price. However, there is no guarantee that these actions would cause Common Shares to trade at a market price that equals or approximates Net Asset Value per share.

Although the Board believes that Repurchase Offers will generally benefit shareholders, the Fund's repurchase of Common Shares will decrease the Fund's total assets. The Fund's expense ratio also may increase as a result of Repurchase Offers (assuming the repurchases are not offset by the issuance of additional Common Shares). Such Repurchase Offers also may result in less investment flexibility for the Fund depending on the number of Common Shares repurchased and the success of the Fund's continuous offering of Common Shares. In addition, when the Fund borrows money for the purpose of financing the repurchase of Common Shares in a Repurchase Offer, interest on the borrowings will reduce the Fund's net investment income. It is the Board's announced policy (which the Board may change) not to repurchase Common Shares in a Repurchase Offer over the minimum amount required by the Fund's fundamental policies regarding Repurchase Offers if the Board determines that the repurchase is not in the Fund's best interest.

Repurchases through Repurchase Offers may significantly reduce the asset coverage of any borrowings or outstanding senior securities. The Fund may not repurchase Common Shares if the repurchases result in its asset coverage levels falling below the levels required by the 1940 Act. As a result, in order to repurchase all Common Shares tendered, the Fund may have to repay all or part of its outstanding borrowings or redeem all or part of its outstanding senior securities to maintain the required asset coverage. See "What Are the Risks of Investing in the Fund? - Effects of Borrowing and Leverage." Also, the size of any particular Repurchase Offer may be limited (beyond the minimum amount required for the Fund's fundamental policies) for the reasons discussed above or as a result of liquidity concerns.

To complete a Repurchase Offer for the repurchase of Common Shares, the Fund may be required to sell portfolio securities. This may cause the Fund to realize gains or losses at a time when the manager would otherwise not do so.

The Board will consider other means of providing liquidity for shareholders if Repurchase Offers are ineffective in enabling the Fund to repurchase the amount of Common Shares tendered by shareholders. These actions may include an evaluation of any secondary market that may exist for Common Shares, and a determination of whether that market provides liquidity for shareholders. If the Board determines that a secondary market (if any) failed to provide liquidity for shareholders, the Board intends to consider all available options to provide liquidity. One possibility that the Board may consider is listing the Common Shares on a major domestic stock exchange or arranging for the quotation of Common Shares on an over-the-counter market. Alternatively, the Fund might repurchase Common Shares periodically in open-market or private transactions, provided the Fund can do so on favorable investment terms. The Board will cause

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the Fund to take any action the Board deems necessary or appropriate to provide liquidity for the shareholders in light of the specific facts and circumstances.

The Fund's repurchase of tendered Common Shares is a taxable event. The Fund will pay all costs and expenses associated with the making of any Repurchase Offer. An Early Withdrawal Charge will be imposed on certain Common Shares that have been held for less than twelve months and are accepted for repurchase pursuant to a Repurchase Offer, subject to certain waivers. See "Early Withdrawal Charge" below.

In accordance with applicable rules of the SEC in effect at the time of the offer, the Fund also may make other offers to repurchase Common Shares that it has issued.

EARLY WITHDRAWAL CHARGE

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